

Thales DIS CPL UK Limited

Annual report and financial statements
for the year ended 31 December 2019

Registered number 02258824



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Strategic Report

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was, and continues to be, the marketing and distribution of information security hardware products, developed by fellow group companies, including the provision of software, maintenance and related services.

On 23 December 2019, 100% of the company ownership was transferred at fair value from Safenet Technologies BV to Thales UK Limited.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company's key financial and other performance indicators were as follows:

	2019	2018	Change
	£000	£000	%
Turnover	23,638	30,220	-22%
Profit before tax	662	832	-20%
Shareholders' funds	2,362	1,884	25%
Average monthly number of employees	110	126	-13%

Turnover and profit reduced in 2019 principally due to a shift in the market from hardware to software products, including sales of subscriptions in which revenue is earned overtime versus upfront and a decline in sales of legacy general purpose HSM units to competitors.

BUSINESS MODEL

Thales DIS CPL UK Limited acts as a limited risk distributor within Thales's cloud protection and licensing business line, selling certain products developed and produced by the business.

The Cloud Protection and Licencing business offers solutions across three areas of Enterprise Data Protection, Identity and Access Management and Software Monetisation.

Enterprise Data Protection

Sensitive data is everywhere. In a climate of advanced threats and breaches, dense virtualisation and multi-cloud deployments, evolving regulatory mandates, and accelerating mobility, the need for advanced data protection solutions has become even more critical.

With Identity and Data Protection solutions for enterprise security, organisations can take a data-centric approach to securing and controlling their sensitive information, while improving efficiencies. Thales's Data Protection solutions offer a complete portfolio of data discovery, encryption and key management solutions that extend protection and ownership across the lifecycle of sensitive data, as it is created, accessed, shared, stored and moved. From the data centre to the cloud, enterprises can remain protected, compliant and in control.

Identity and Access Management

Thales's Identity and Access Management solutions help streamline identity management for businesses. By default, user identities are distributed among cloud applications, virtual environments, networks and web portals. With no central access management strategy, businesses of all sizes lose precious security and productivity. Thales's Identity and Access Management solutions enable organisations to eliminate password hassles for users through single sign on functionality and ensure the right user has access to the right resources at the right level of trust.

Strategic Report Continued

Software Monetisation

With over 30 years' experience, Thales's Sentinel Software Monetisation portfolio provides software companies and intelligent device vendors with software licensing, protection and entitlement management solutions which help them monetise their software and drive business growth

BUSINESS STRATEGY

Thales's Cloud Protection and Licensing business unit aims to provide security for a world powered by the cloud, data and software. The business has been organised into the three key areas of Data Protection, Identity and Access Management and Software Monetisation. The goal of this is firstly to ensure a leadership position in the area of Data Protection, Encryption and Key Management, secondly to become a leading player in the Enterprise Access Management market, and thirdly to maintain leadership in Software Monetisation.

This aligns with ensuring the Company's ongoing transformation towards a cloud environment where the portfolio for Cloud Protection and Licensing has evolved for its three business segments as follows:

- For Data Protection with historical offers such as HSM and HSE and more recent offers such as Data Protection on Demand (DPoD) and the CipherTrust Cloud Key Manager platform and the virtualisation of historical offers;
- For Authentication with historical offers such as hardware tokens for digital signature and PKI and new offers such as Enterprise Access Management as a service (STA); and
- For Software Monetisation with historical offers such as hardware keys and new offers based on software.

FUTURE OUTLOOK

The Company faces increasing competition from new and existing competitors in the information security sector, but is well positioned to exploit the growth in this market.

Due to the impact of the Covid-19 pandemic, sales in 2020 are forecast to be 10 per cent down against budget, with the reduction in demand for network encryption products being partially offset by additional demand for our remote working products. The impact on EBIT however has been less, through a reduction in discretionary spend such as R&D and marketing costs. Additionally, the benefit of the job retention scheme has meant that EBIT will be close to budget for the year.

With positive signs of a vaccine being delivered soon, we are planning on returning to growth in sales and EBIT in 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider that the following are principal risk factors that could materially and adversely affect the Company's future operating benefits or financial position. Management and the board regularly review risks facing the Company. The list is not intended to be exhaustive.

Brexit

The United Kingdom withdrew from the European Union on 31 January 2020 and entered into an Implementation Period which is scheduled to end on 31 December 2020. However, the terms of the future trade and other relationships with the European Union are not yet clear, and it is therefore not currently possible to evaluate all the potential implications to the Thales UK group and its trade, customers, suppliers and the wider economy. In order to manage the uncertainties associated with Brexit, the Thales Group has assessed the potential impacts of Brexit and has put in place measures to monitor the ongoing impacts. These include the establishment of a special Brexit team in Thales UK, reporting to the UK CEO.

Strategic Report Continued

COVID-19

The impact of COVID-19 has been relatively small with the reduction in demand for network encryption products being broadly offset by additional demand for our remote working products. Reductions in discretionary spend such as R&D and marketing costs, plus the benefit of the job retention scheme meant that EBIT was better than budget for the first six months. However, with the job retention scheme due to cease in October and demand in the second half of the year uncertain, it is not currently possible to evaluate all the potential implications to the Company and its trade, customers, suppliers and the wider economy.

At the time of signing these financial statements, the Directors have not identified any impacts of Brexit or of COVID-19 which might require a material change to the current activities of the Company, nor which would require any adjustments to the financial amounts presented in the financial statements at 31 December 2019.

Liquidity risk

Both Brexit uncertainties and Covid-19 related impacts could adversely affect the Company's cash flow generation. Being part of the Thales group means that the Company has access to cash at short notice should it need additional funding. The risk of the Thales group not being able to provide such funding is considered low by the Directors.

Price risk

Fluctuations in the exchange rate between the UK pound, the US dollar and the Euro could affect the Company by negatively impacting turnover, expenses or the Company's net assets.

Credit risk and cash flow risk could also be affected if fluctuations in the exchange rate negatively impact the Company.

SECTION 172(1) STATEMENT

The Directors have taken account of new reporting requirements as required by The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) which apply for companies which meet certain criteria in respect of reporting periods commencing on or after 1 January 2019. In this regard, the Directors consider that the Company is within the scope of the criteria which determine whether or not an entity is required to provide a Section 172(1) statement in its annual report and financial statements on the basis that it meets the criterion of being a subsidiary of a company the shares of which are quoted on a regulated financial market (see Note 17 for ultimate parent company details).

The Directors consider the key stakeholders of the Company to be its customers, suppliers, its shareholder and its employees.

Customers

Our customers are the reason why the Company exists, and it is vital that we build long term relationships with them. The Company has long had a substantial direct sales force and while this remains in place, it has embarked on a strategy to increase the share of business flowing through channel customers.

Suppliers

The Company maintains close contact with its suppliers because they are a key contributor to the Company's ability to meet its customers' requirements. Additionally, the Company considers that it is essential to work with a range of suppliers to ensure the sustainability of the business in the medium to longer term. In this regard, it works with its suppliers to identify new ways of meeting customers' requirements using alternative sources of material or labour supply, where this can bring an advantage to the business delivery.

Shareholder

As set out in Note 17, the Company's immediate parent company is Thales UK Limited and the ultimate parent company is Thales SA, a company registered in France.

There is a close engagement between the Company and its ultimate shareholder to ensure that the capability of the Company in delivering for its customers is supported by the wider Thales Group which provides access to specialist technical knowledge and resources. There are also formal mechanisms for reporting and reviewing both operational and financial performance of the Company, as well as for the provision of an overall governance framework within which the Company operates.

Strategic Report Continued

Employees

People are the Company's greatest assets. Keeping people safe from harm and creating a healthy and safe environment wherever we operate is our number one priority. The health and well-being of the Company's people has been a particular focus for the Company in the period since the year end with the global outbreak of the COVID-19 virus. During this period, we have put in place a number of measures specifically designed to ensure that employees are protected as far as possible from the risk of exposure to COVID-19 as a result of their work for the Company, including revised access and working arrangements on operational sites, and equipping our people to work from home where possible throughout the period, backed by advice and support to assist people in managing the change in working patterns and balance the impact on their home lives.

The Company's Directors and management team actively engage in dialogue with employees through the use of various representative groups and internal communications forums which are addressed to all employees. This includes an annual employee engagement survey which provides substantial feedback to the Directors and management.

The Company holds regular team briefings led by local management teams to ensure that current topics, including business performance, are appropriately shared and discussed with employees, with the key matters arising reported to the Board. Additionally, the Company actively engages with employee representative groups, such as recognised trade unions, with formal updates provided via periodic meetings. Where the Directors are considering plans that may impact the working conditions of certain groups of employees, for example restructuring or relocation of teams, these topics are addressed directly through consultation with the employees who may be impacted in order to accommodate as far as possible the reasonable needs of employees within the objectives of the business. Thus, wherever possible, impacted employees are encouraged and supported to be re-deployed in other work areas, or on alternative projects for which they have the appropriate skills and experience, in line with the business' needs. Consultations of this nature are carried out with the aim of enabling employees to plan for, and manage, as far as reasonably possible, the impacts that may be involved for them.

Ethics and compliance

The Company recognises the importance of having a strong ethics culture in terms of behaving in the right way in business to protecting its reputation and has been operating an awareness programme to ensure responsible practices and ethical conduct are applied systematically throughout the organisation. All staff are required to complete an annual ethics compliance course.

Environmental information

The Company adheres to a comprehensive environmental policy within a framework operated by the Thales group. This involves complying with legislation, standards and best practice. We operate in a way that seeks to protect the environment, preserve biodiversity and respect natural sites. We are reducing our footprint by minimising our resources, seeking less environmentally harmful alternatives where we can, recycling and preventing pollution wherever possible. In addition, we monitor power and water consumption on all our sites and have programmes in place to reduce consumption, as well as CO2 emissions, and move to a more sustainable business in line with the UN sustainable development goals.

Decision making

When considering significant business decisions, such as specific site developments or changes in activity, the Company seeks to involve the appropriate stakeholders, and has regard for the potential impacts of decisions, seeking as far as reasonably possible to balance the interests of stakeholders with the objectives of the Company.

Following the announcement by Thales SA to acquire the Gemalto group in 2018, the e-security businesses of each group were earmarked to merge to form a single go to market global business line. The project to plan to merge the two businesses began in January 2019, following communication by business line leaders of the intention to form a single sales function in order to address the three identified markets and better serve our customers from enhanced offerings.

Staff were informed of the merger through various company communications at the commencement of this project through to the end of 2019.

Strategic Report Continued

As part of the plan to create a single market leading cloud protection and licencing business, a decision was also made to rename the Company from Safenet UK Limited to Thales DIS CPL UK Limited and to rebrand the Company using the Thales logo. The Directors felt this best reflected the new organisation and would provide a clear basis for future growth.

Customers and suppliers were informed of these changes in one communication through a single letter issued in December 2019.

During the second half of 2019, as part of the plans to create a single market leading business, it was decided to rationalise the site portfolio of the combined business. The Camberley site was closed on 22 May 2020 with all activity being transferred to the Thales site in Reading. The announcement of this closure in 2019 to the staff was followed by a collective consultation process. Flexible working arrangements were already in place in the Company and with the additional flexibility required because of the COVID-19 situation, we have been able to retain most of our staff in their current roles, and therefore the impact of the Camberley site closure has been very small on the current employees.

By order of the board



Dr Robert Elliss

Director

350 Longwater Avenue,
Green Park,
Reading RG2 6GF

1 December 2020

Directors' Report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2019.

Matters covered in the Strategic Report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report. These matters relate to the principal activity, business review and principal risks and uncertainties.

Post balance sheet events

On 6 January 2020 the Company changed its name from Safenet UK Limited to Thales DIS CPL UK Limited.

On 7 January 2020, the Company acquired the trade, assets and liabilities of the Thales e-Security business, with the intention of creating the market leading cloud protection business in the UK.

A summary of the impact that CoVID-19 has had on the Company during the post balance sheet period and the actions management has taken are disclosed in the Strategic Report.

Management has also evaluated the potential impact of COVID-19 on the valuation of its assets and concluded that there has been no material change from the balance sheet date.

Going concern

At 31 October 2020 the Company had cash balances of £19,687,000 and net assets of £11,016,000.

The Directors have prepared updated cash flow forecasts, including consideration of the impact of COVID-19 on the business, and the Directors have a reasonable expectation that the Company has sufficient resources to meet its operating liabilities as they fall due.

The Directors have also considered the sensitivity to changes in the assumptions used in preparing the updated cash flow forecasts and the commitment of financial support from the parent company if the actual cash flows reduced to the extent that this financial support was required.

Thales UK Limited has confirmed that it will provide the necessary financial support for the foreseeable future to enable the Company to meet its liabilities as they fall due. The Directors of the Company have made appropriate enquiries of the Directors of Thales UK Limited to confirm that they are satisfied that the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

Environmental information

The Thales Group in the UK has implemented an Environmental Policy to conduct our current and future business in a way that protects the environment. This is achieved through development and implementation of Environmental Management Systems against which we report environmental performance regularly to the Thales Holdings UK Plc board. It is a Thales requirement that operating companies are certified to the International Standard for Environmental Management Systems ISO 14001 to which we have been certified. Current Environmental Programmes include reducing our carbon footprint and implementing a Green Purchasing programme.

Dividends

The Directors do not recommend the payment of a dividend (2018: £2,000,000).

Directors

The Directors who held office during the year and up to the date of this report were as follows:

V. Lyon
Dr R J Elliss
G. Clark

Appointed 1 April 2020
Resigned 31 March 2020

Directors' Report continued

Political contributions

The Company made no political donations during the year (2018: £Nil).

Directors' liabilities

The Company has not granted any indemnity against liability to its Directors during the year or at the date of approving the Directors' Report.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board



Dr Robert Elliss

Director

350 Longwater Avenue,
Green Park,
Reading RG2 6GF

1 December 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Thales DIS CPL UK Limited

Opinion

We have audited the financial statements of Thales DIS CPL Limited for the year ended 31 December 2019 which comprise the profit and loss account and other comprehensive income, the balance sheet, the Statement of changes in equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to notes 1 and 19 of the financial statements, which describe the impact of COVID-19 on the Company's financial position and the Directors' assessment of going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



J I Gordon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

1 December 2020

Profit and loss account and other comprehensive income
for the year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Turnover	2	23,638	30,220
Cost of sales		(11,174)	(17,886)
Gross profit		12,464	12,334
Distribution costs		(9,462)	(9,979)
Administrative expenses		(2,373)	(1,534)
Other operating income		-	213
Operating profit	3	629	1,034
Interest receivable and similar income	5	33	18
Interest payable and similar charges	6	-	(220)
Profit before taxation		662	832
Taxation	7	(184)	(185)
Profit for the financial year		478	647
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		478	647

The results relate to continuing activities.

Balance Sheet
At 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Goodwill	8	1,059	1,348
Tangible assets	9	237	255
Investments	10	1	1
		<u>1,297</u>	<u>1,604</u>
Current assets			
Debtors (including £1,631,000 (2018: £2,372,000) due after more than one year)	11	17,250	16,734
Cash at bank and in hand		5,822	1,377
		<u>23,072</u>	<u>18,111</u>
Creditors: amounts falling due within one year	12	<u>(14,349)</u>	<u>(12,288)</u>
Net current assets		8,723	5,823
Total assets less current liabilities		<u>10,020</u>	<u>7,427</u>
Creditors: amounts falling due after more than one year	12	(7,360)	(5,305)
Provisions	13	(298)	(238)
Net assets		<u><u>2,362</u></u>	<u><u>1,884</u></u>
Capital and reserves			
Called up share capital	15	50	50
Profit and loss account		2,312	1,834
Equity shareholders' funds		<u><u>2,362</u></u>	<u><u>1,884</u></u>

These financial statements were approved by the Board of Directors on 1 December 2020 and were signed on its behalf by:



Dr Rob Elliss
Director

Company registered number: 02258824

The accompanying notes form part of the financial statements.

Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018	<u>50</u>	<u>3,187</u>	<u>3,237</u>
Total comprehensive income for the year	-	647	647
Dividends	-	(2,000)	(2,000)
Balance at 31 December 2018	<u>50</u>	<u>1,834</u>	<u>1,884</u>
Total comprehensive income for the year	-	478	478
Balance at 31 December 2019	<u>50</u>	<u>2,312</u>	<u>2,362</u>

The accompanying notes form part of the financial statements.

Notes to the financial statements

1 Accounting policies

Thales DIS CPL UK Limited is a private company incorporated, domiciled and registered in England and Wales. Its registered number is 02258824 and its registered address is given on page 7.

These financial statements have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000, unless otherwise stated.

The Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

As the consolidated financial statements of Thales SA include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 (basic financial instruments) and FRS 102.12 (other financial instrument issues).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated as regards intangible assets and provision for bad debts and are based on historical experience and other factors including expectations of future events that are believed to be reasonable in the circumstances. The accounting treatments of goodwill, intangible assets and provisions are disclosed elsewhere in note 1.

1.3 Going concern

At 31 October 2020 the Company had cash balances of £19,687,000 and net assets of £11,016,000.

The Directors have prepared updated cash flow forecasts, including consideration of the impact of COVID-19 on the business, and the Directors have a reasonable expectation that the Company has sufficient resources to meet its operating liabilities as they fall due.

The Directors have also considered the sensitivity to changes in the assumptions used in preparing the updated cash flow forecasts and the commitment of financial support from the parent company if the actual cash flows reduced to the extent that this financial support was required.

Thales UK Limited has confirmed that it will provide the necessary financial support for the foreseeable future to enable the Company to meet its liabilities as they fall due. The Directors of the Company have made appropriate enquiries of the Directors of Thales UK Limited to confirm that they are satisfied that the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency of sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.5 Basic financial instruments

Fixed asset investments

Fixed asset investments are carried at cost less impairment.

Trade and other debtors

Trade and other debtors are recognised initially at the transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors

Trade and other creditors

Trade and other creditors are recognised initially at the transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at the market rate of a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Leasehold improvements – shorter of the life of the lease or 5 years
- Furniture and office equipment – 4 years
- Computer equipment – 3 years Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern according to which the Company expects to consume an asset's future economic benefits.

Accounting policies (Continued)

1.7 Goodwill

Goodwill is stated at cost less any accumulated amortisation. Goodwill is allocated to the cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Goodwill is amortised on a straight line basis over its useful life and has no residual value. The finite useful life of goodwill is estimated to be 10 years. The Company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill is tested for impairment in accordance with FRS 102.27 (impairment of assets) when there is an indication that goodwill may be impaired.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.10 Turnover

The Company derives revenue from product sales, software and technology licences, subscriptions, maintenance (post-contract customer support), and professional services. Sales transactions may contain multiple elements, including products, licences, maintenance or other services. Revenue is recognised in accordance with FRS102, Revenue Contracts with Customers.

Product sales

The Company sells hardware and related encryption products. The majority of hardware appliances contain software components that function together to provide the essential functionality of the product. Our revenue arrangements generally include only a general right of return relative to delivered products. Revenue is recognised at the point of sale.

Software licence sales

Licence revenue is comprised of perpetual and time-based licence fees, which are derived from arrangements with end users, original equipment manufacturers and resellers or partners. The Company recognises licence revenue based on the standalone selling price (SSP). Some term licences are invoiced to the customer annually. The licence performance obligation is fulfilled upon execution of an agreement and the licenced technology is made available to the customer.

Cloud licence subscriptions

Where the Company's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed over the contract term.

Maintenance and other services

Maintenance revenue is derived from support arrangements. Maintenance arrangements provide technical customer support and the right to unspecified upgrades on an if-and-when-available basis. Maintenance terms are typically one or three years in duration. Maintenance revenue is recognised ratably over the maintenance term. Unrecognised maintenance fees are included in deferred income on the balance sheet.

Revenue from services consists primarily of hosted services, consulting and training services. Revenue from hosted services is recognised as the services are delivered, generally over a one to three year period. Consulting and training services, when provided on a stand-alone basis, are recognised as the services are provided to the customer.

Accounting policies (continued)

1.11 Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

1.12 Interest receivable

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

1.13 Interest payable

Interest payable is recognised in profit or loss as it becomes due, using the effective interest method.

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.15 Impairment excluding tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows from that asset which can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit or loss.

Notes to the financial statements continued

2 Turnover

	2019	2018
	£000	£000
By product/service type		
Product sales	8,288	13,702
Software licence sales	4,252	7,436
Cloud licence subscriptions	2,752	605
Maintenance	7,532	7,642
Other services	814	835
	<u>23,638</u>	<u>30,220</u>
By geographical market		
United Kingdom	23,606	30,125
Rest of European Union	6	92
Rest of the world	26	3
	<u>23,638</u>	<u>30,220</u>

3 Operating profit

Operating profit is stated after charging:

	2019	2018
	£000	£000
Depreciation of fixed assets	139	206
Amortisation of goodwill	289	289
Other rental charges	276	276

Auditor's remuneration

Amounts receivable by the Company's auditor and its associates in respect of:

- Audit of the financial statements	<u>27</u>	<u>40</u>
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4 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	2019	2018
	Number	Number
Distribution and marketing	7	13
Office and management	103	113
	<u>110</u>	<u>126</u>

Staff numbers and costs:

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	10,404	10,026
Social security costs	908	1,324
Contributions to defined contribution plans	454	466
	<u>11,766</u>	<u>11,816</u>

Notes to the financial statements continued

Note 4 continued

Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	420	451
Company contributions to money purchase pension plans	<u>25</u>	<u>25</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £287,000 (2018: £337,000) and Company pension contributions of £18,000 (2018: £18,000) were made to a money purchase scheme on the Director's behalf.

The number of Directors receiving contributions to money purchase plans in the year was 2 (2018: 2).

5 Interest receivable and similar income

	2019 £000	2018 £000
Interest received on intercompany balances	33	18
Total interest receivable and similar income	<u>33</u>	<u>18</u>

6 Interest payable and similar charges

	2019 £000	2018 £000
Other interest payable	-	220
Total other interest payable and similar charges	<u>-</u>	<u>220</u>

Notes to the financial statements continued

7 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity:

	2019 £000	2018 £000
<i>Current tax</i>		
UK Corporation tax at 19% (2018:19%)	194	238
Adjustments in respect of prior years	1	(23)
Total current tax	195	215
<i>Deferred tax (see note 14)</i>		
Origination and reversal of timing differences	(1)	(13)
Adjustments in respect of prior periods	(10)	(18)
Effect of tax rate change on opening balance	-	1
Total deferred tax	(11)	(30)
 Tax on profit on ordinary activities	 <u>184</u>	 <u>185</u>

Reconciliation of effective tax rate:

	2019 £000	2018 £000
Profit before taxation	<u>662</u>	<u>832</u>
Tax using the UK corporation tax rate of 19.0% (2018:19.0%)	126	158
<i>Effects of:</i>		
Current tax adjustment in respect of prior period	1	(23)
Deferred tax adjustment in respect of prior period	(10)	(18)
Non-deductible expenses	12	12
Other permanent differences	55	56
Total tax expense included in profit or loss	<u>184</u>	<u>185</u>

Factors affecting future tax charge:

The deferred tax on temporary differences at 31 December 2019 was calculated at the rate applicable to the year in which the temporary differences are expected to reverse. In the UK the enacted rate at 31 December 2019 was 17% and this was the rate used to calculate the deferred tax asset at the balance sheet date. In March 2020, the Chancellor announced that the UK corporation tax rate would remain at 19% rather than reducing to 17% on 1 April 2020.

Notes to the financial statements continued

8 Goodwill

	£000
Cost	
Balance at 1 January 2019	2,884
Balance at 31 December 2019	<u>2,884</u>
Amortisation	
Balance at 1 January 2019	(1,536)
Amortisation for the year	(289)
Balance at 31 December 2019	<u>(1,825)</u>
Net book value	
At 31 December 2019	<u>1,059</u>
At 31 December 2018	<u>1,348</u>

The goodwill arose on the acquisition by the Company of the assets of Cryptocard Europe Limited in December 2013. The technology acquired from the Cryptocard business transaction forms the basis of the identity and access management service offering provided by the Company today. This goodwill is being amortised over a ten year period, with the cost recognised in administrative expenses in the profit and loss account.

9 Tangible fixed assets

	Leasehold improvements £000	Furniture and office equipment £000	Computer equipment £000	Total £000
Cost				
Balance at 1 January 2019	592	313	1,231	2,136
Additions	-	92	30	122
Disposals	-	-	(8)	(8)
Balance at 31 December 2019	<u>592</u>	<u>405</u>	<u>1,253</u>	<u>2,250</u>
Depreciation				
Balance at 1 January 2019	(531)	(310)	(1,040)	(1,881)
Depreciation charge for the year	(41)	(2)	(96)	(139)
Disposals	-	-	7	7
Balance at 31 December 2019	<u>(572)</u>	<u>(312)</u>	<u>(1,129)</u>	<u>(2,013)</u>
Net book value				
At 31 December 2019	<u>20</u>	<u>93</u>	<u>124</u>	<u>237</u>
At 31 December 2018	<u>61</u>	<u>3</u>	<u>191</u>	<u>255</u>

Notes to the financial statements continued

10 Investments

Fixed asset investments The Company owns 0.05% (2018: 0.05%) of the equity of Thales DIS Technology India Pvt Ltd, a fellow subsidiary undertaking incorporated in India. The cost and net book value of the ownership is £1,000 (2018: £1,000).

	Aggregate of capital and reserves	Profit for the year	Registered office address	Class of shares held	Ownership 2019	Ownership 2018
	£000	£000			%	%
SafeNet InfoTech Pvt Ltd	6,927	2,101	L-47, LGF Lajpat Nagar II New Delhi 110024	Ordinary	0.05	0.05

11 Debtors

	2019 £000	2018 £000
Trade debtors	10,765	7,862
Amounts owed by group undertakings	2,525	3,280
Deferred tax assets (see note 14)	89	78
Prepayments and accrued income	3,871	5,514
	<u>17,250</u>	<u>16,734</u>
Due within one year	15,619	14,363
Due after more than one year	1,631	2,371
	<u>17,250</u>	<u>16,734</u>

Prepayments and accrued income includes capitalised sales commission costs of £1,631,000 (2018: £1,499,000). The commission is incurred to secure non-cancellable contracts with customers. This commission is amortised over the contract period in line with the revenue earned from these customers.

The balances due after more than one year comprise primarily deferred commission costs and unbilled revenue which are not due to be expensed or invoiced in line with the contracts within the next twelve months.

Notes to the financial statements continued

12 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	91	87
Amounts owed to group undertakings	4,429	1,029
Taxation and social security	1,566	1,051
Corporation tax	96	109
Accruals and deferred income	8,167	10,012
	<u>14,349</u>	<u>12,288</u>

Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Accruals and deferred income	<u>7,360</u>	<u>5,305</u>

13 Provisions

	Dilapidation provision £000	Restructuring costs £000	Total £000
At 31 December 2018	238	-	238
Additional provision in the year	-	60	60
Utilisation in the year	-	-	-
Unused amounts reversed	-	-	-
At 31 December 2019	<u>238</u>	<u>60</u>	<u>298</u>

The dilapidation provision relates to the Company's leased premises at Camberley and is for dilapidation and refurbishment costs which will be incurred at the end of the lease when the building has to be returned to its original condition. This provision will be utilised in the second half of 2020 when the Camberley office is closed.

The restructuring provision is associated with staff redundancy costs arising and is expected to be utilised within one year.

Notes to the financial statements continued

14 Deferred tax

Deferred tax assets are attributable to the following:

	2019 £000	2018 £000
Capital allowances	77	65
Other	12	13
Tax assets	<u>89</u>	<u>78</u>

Movement in deferred tax assets during the year	1 January 2019 £000	Recognised in income £000	31 December 2019 £000
Capital allowances	65	12	77
Other	13	(1)	12
	<u>78</u>	<u>11</u>	<u>89</u>

15 Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Within one year	133	274
Between two and five years	-	411
	<u>133</u>	<u>685</u>

During the year £276,000 was recognised as an expense in the profit and loss account in respect of operating leases (2018: £276,000).

On 30 June 2020, the Company ceased to occupy its premises at 3 Meadows Business Park, Station Approach, Blackwater, Camberley, Surrey, GU17 9AB when it moved into the Thales offices at 350 Longwater Avenue, Green Park, Reading, RG2 6GF.

17 Ultimate parent company and parent company of larger group

The immediate parent company is Thales UK Limited, a company incorporated in the UK. The ultimate parent company is Thales SA a company incorporated in France. This is also both the largest and smallest group which includes the Company and for which consolidated financial statements are prepared. Copies of the group financial statements of Thales SA are available from Tour Carpe Diem, 31 place des Corolles, 92098 Paris La Defense Cedex, France.

18 Related parties

The Company has taken the exemptions in FRS102 from disclosing transactions with other members of the Thales group.

19 Subsequent events

On 6 January 2020 the Company changed its name from Safenet UK Limited to Thales DIS CPL UK Limited.

On 7 January 2020, the Company acquired the assets, liability and trade of the Thales e-Security business, excluding cash and treasury balances. The consideration was a payment from Thales UK Limited of £2,672,000 for the net liabilities transferred.

Due to the impact of the Covid-19 pandemic, sales in 2020 are forecast to be 10 per cent down against budget, with the reduction in demand for network encryption products being partially offset by additional demand for our remote working products. The impact on EBIT however has been less, through a reduction in discretionary spend such as R&D and marketing costs. Additionally the benefit of the job retention scheme has meant that EBIT will be close to budget for the year.